

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 2122

Senator Ortiz (As amended 5/26/00)

Position:

Support

Proponents:

**State Controller (Sponsor), CCPOA,
Center for Religious Freedom**

Opponents:

None Known

SUMMARY

SB 2122 authorizes and encourages the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) to share information on investment strategies. The bill also provides that the confidential status of the information and documents shared by the systems will be preserved if such information is shared.

HISTORY

AB 107 (Knox) prohibits new or additional investments by the CalSTRS and CalPERS on and after January 1, 2001, in tobacco companies and requires a divestment of those existing investments by July 1, 2002. The Teachers' Retirement Board (Board) adopted a No Position position on this bill, although, for fiduciary reasons, the Board has removed tobacco manufacturer equities from its investment benchmarks.

AB 2745 (Kaloogian), which is being held in the Assembly Appropriations Committee, required CalSTRS' and CalPERS' internal and external fund managers to perform and disclose due diligence with respect to potential investments in foreign companies that pose a threat to national security and to hire an independent auditor to review and report to the Board, the CalPERS Board of Administration and the State Legislature regarding present and proposed investments in those companies. The Board opposes AB 2745.

SB 1928 (Haynes), opposed by the Board, creates the Capital Markets Task Force Board to make recommendations on investments by CalSTRS and CalPERS in foreign companies and concerns related to national security or human rights of material concern to the performance of those investments.

SUMMARY OF LATEST AMENDMENTS

The May 26th amendments

- delete the bill's provisions creating the advisory panel

- authorize and encourage CalSTRS and CalPERS to share information on investment strategies and provide that the confidentiality of information and documents of both systems will be preserved.

CURRENT PRACTICE

CalSTRS uses internal and external fund managers to oversee and manage CalSTRS' extensive portfolio of domestic and international equities, bonds, and real estate. A large portion of this portfolio is passively managed through market indices. In addition, CalSTRS uses external consultants while it develops investment strategies and makes policy recommendations to the Board. For example, CalSTRS retains a general consultant and two external consultants are on hand for special investment-related projects. All external investment managers are consulted from time to time on a variety of investment related matters. In addition, CalPERS and CalSTRS staff informally discuss investment matters of common interest, as the need arises.

DISCUSSION

SB 2122 encourages both systems to regularly cooperate and share information that may be helpful in developing and implementing investment strategy. The bill also expresses legislative intent of which is to "... safeguard the solvency of all public retirement systems and funds." As mentioned, CalSTRS already retains and regularly confers with a number of external consultants and fund managers who provide expertise in the development of the system's investment strategies. In addition, CalSTRS, from time to time and on a variety of topics, communicate with CalPERS investment staff. This bill clarifies that such communications do not affect the confidential status of the information discussed.

FISCAL IMPACT

Benefit Program Costs – None.

Administrative Costs – None.

POSITION

Support. SB 2122 clarifies the ability of CalSTRS and CalPERS share information on the development and implementation of investment strategy without affecting the confidential status of the information.